



August 12, 2010

Via FedEx and Hand Delivery

The Honorable Bobby L. Rush
Chairman, Subcommittee on Commerce, Trade, and Consumer Protection
Committee on Energy and Commerce
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Goldline thanks you for the opportunity to provide the Subcommittee with information about our company and its commitment to exemplary business practices. At the outset, a brief review of Goldline's history and commitment to consumer information and disclosure may be helpful to the Subcommittee.

Goldline History

Goldline International is one of the leading companies in the United States offering a full range of precious metals products. Since 1960, Goldline has delivered internationally recognized gold, silver, and platinum coins and bars, as well as rare and collectible numismatic coins, to collectors and investors. Goldline is proud of its A+ rating by the Better Business Bureau.

Goldline began with its founding as Doak Investor Services, Inc. in 1960. In 1998, Goldline acquired Dreyfus Precious Metals, Inc., the precious metal brokerage and storage subsidiary of the Dreyfus Corporation. In 2009, Goldline was recognized by the *Los Angeles Business Journal* as the eighth fastest growing private company and the 32d largest privately held company in the Los Angeles area. We believe we would not have achieved this significant growth without our repeat business and excellent relations with our clients.

Goldline's Commitment to Consumer Education, Disclosure and Compliance

Goldline is committed to providing the important information that clients need when making purchasing decisions. Thus, Goldline offers among the most comprehensive and clear written disclosures in the precious metals industry. These disclosures include detailed information regarding Goldline's sales staff, the risks of investing in precious metals, and Goldline's pricing policies.

Goldline's disclosures begin with its corporate brochure which states:

Goldline provides each client with a risk disclosure booklet, *Coin Facts for Investors and Collectors to Consider*, which is located in the attached pocket. This risk

disclosure contains important information for each client to consider before making his or her first acquisition. You can review this booklet online at www.Goldline.com. Additional copies are available by calling 1-800-827-4653.

Coin Facts is written in a large, easy to read font and contains important information regarding the acquisition of precious metals. (A copy is attached as exhibit 1.) In *Coin Facts*, Goldline explains its pricing policies in extensive detail and provides a mathematical example to ensure its clients understand how this pricing works. *Coin Facts* states:

OUR PRICES: Our prices are set internally based upon our analysis of a variety of factors and are not necessarily tied to the prices quoted by any other organization. The prices charged by Goldline for coins are subject to change based on market conditions. Our total profit before operating expenses may be more or less than our spread based on various factors including, but not limited to: quantity purchasing, favorable or unfavorable purchases, and positive and negative market conditions. Goldline acts as a principal, not as a broker, and generally owns the coins and precious metals it buys and sells.

There is a price differential or "spread" between our selling price (the "ask" price) and our buy-back price (the "bid" price). This is often referred to as a "transaction cost."

A typical spread on our most common bullion coins (e.g. Canadian Maple Leaf or South African Kruggerand gold coins) may range from approximately 5% to 20% depending on the coin though spreads may increase based upon market conditions, availability and demand. Our spread on semi-numismatic coins, rare or numismatic coins and rare currency currently ranges from 30% to 35%. Examples of coins which have a 30% to 35% spread include European gold coins such as the Swiss 20 Franc, the PCGS certified "First Strike®" coins, coins which have been encapsulated by a grading service such as PCGS or NGC, the Morgan and Peace silver dollars in all grades, and the Walking Liberty, Franklin and Kennedy silver half-dollars in all grades. Spreads may change based upon market conditions, availability and demand.

With the exception of the most common 1 oz. bullion coins, Goldline charges clients its numismatic spread, which currently ranges from 30% to 35%, on coins and currency. To earn a profit upon resale to us, your coins, currency or bullion must appreciate sufficiently to overcome this price differential.

To illustrate how this spread works, consider the following example. If the spread on a coin is 35% and Goldline's ask/sell price is \$500 for the coin, then Goldline's bid/buy price is \$325. Your coin must appreciate more than \$175 to earn a profit. If you choose to sell your coin back to Goldline, you must also pay a 1% liquidation fee (the minimum liquidation fee is \$15)...¹

¹ Goldline provides a FAQ on its website which also discusses its spread and pricing:

Goldline also provides important information about its sales staff and commission structure:

ACCOUNT EXECUTIVES: The Account Executives at Goldline are generally commissioned salespersons. Their commissions are usually greatest on rare coins and semi-numismatic coins and least on bullion related products. Their work experience, knowledge, background, and training vary widely. They and/or Goldline may receive, from time to time, undisclosed compensation for recommending specific coin or currency products (including but not limited to contests, cooperative advertising, and trading profits in coins that they may own and/or sell). Goldline's employees are not licensed as investment advisors and are not authorized to recommend the purchase or sale of any product or investment other than the products specifically sold by Goldline. Check with a licensed professional with expertise in a particular market before making a decision to buy or sell any security, bond, annuity or financial instrument. Further, Account Executives are not tax advisors and may not provide any advice regarding taxability, tax rates or related issues for any product Goldline sells. You should consult with your tax advisor regarding any questions about the tax implications of buying or selling bullion, rare coins or rare currency.

Coin Facts clearly spells out the risks of investing in precious metals for the potential client.

RISK: All investments involve risk - coins, currency and bullion are no exception. The precious metals, rare coin and rare currency markets are speculative, unregulated and volatile and prices for these items may rise or fall over time. Goldline does not guarantee that any client buying for investment purposes will be able to sell for a profit in the future.

The value of a bullion coin (e.g., Canadian Maple Leaf or South African Krugerrand gold coins) is largely determined by the current spot or market price of bullion. This price fluctuates throughout the trading day.

The value of a numismatic or rare coin is determined by multiple factors which can and do fluctuate independently from bullion prices. These factors include: the perceived scarcity of the coin, its quality, current demand, market sentiment, and economic factors.

Bullion, rare coins and rare currency can go down as well as up in value. These items may not be suitable for everyone. Goldline does not determine the suitability of any specific person to purchase rare coins, bullion or rare currency. You should consult with your independent financial advisor regarding whether an investment in rare coins, bullion or rare currency is right for you. You should not acquire any products from Goldline if you are not competent or qualified to make your own financial decisions.

Goldline has a spread or price difference between our selling price, called the "ask," and our buy-back price, called the "bid." That spread varies depending on the type of coin you acquire, with the most common bullion coins like the American Eagle or Canadian Maple Leaf having the lowest spreads and all other coins having higher spreads. Spreads on bullion coins are generally 5-20% and 30-35% for all other coins. There is also a 1% liquidation fee when you sell your coins back to Goldline. You should read our risk disclosure booklet, Coin Facts for Investors and Collectors to Consider, and our Account and Storage Agreement, which describe the various spreads and will tell you how the spread works.

You should obtain a thorough understanding of the coin and bullion products before you acquire these products as a collector or investor.

The investment value of a rare coin depends in large part on the price you pay. If you are acquiring any of Goldline's products as an investment, you should evaluate its current market value, potential for appreciation and liquidity and consult independent sources regarding these factors.

Since rare coins, bullion and rare currency can decline in value, you should have adequate cash reserves and disposable income before considering acquiring a coin, currency or precious metals.

We do not recommend early withdrawal from accounts or securities which may result in substantial penalties or fees. You should consult with your independent financial advisor before disposing of any security, annuity, Certificate of Deposit or other investment to acquire rare coins, currency or bullion.

Coin Facts encourages prospective clients to conduct their due diligence before they acquire any product. At the very outset, *Coin Facts* provides:

Conduct your due diligence before you acquire rare coins, bullion and rare currency from any firm.

(Original emphasis.)

Goldline reiterates this admonishment in its Summary:

SUMMARY: We strongly recommend that you acquire a sound understanding of precious metals, coins, and their markets before you make your first purchase. Be prepared to invest some time and effort into understanding the market and the grading of your coins or currency. Do not commit more than 5% to 20% of your investment funds to rare coins or precious metals. Protect your future with a diversified portfolio that meets your objectives for safety, liquidity, and growth. Be prepared to hold your coin, bullion and currency investments for a minimum of 3 to 5 years, recognizing that all markets have their ups and downs. Perform your due diligence and let reason and common sense be your guide.

(Original emphasis.)

Goldline repeats much of the information from *Coin Facts* in the Account and Storage Agreement which every client must read and sign to finalize his or her purchase. (A copy is attached as exhibit 2.) For example, the Account and Storage Agreement states:

Considerations for Investors...6. Goldline employees may from time to time discuss the general direction of various financial markets. Neither Goldline nor its representatives can guarantee any market movement. Further, Goldline employees are not licensed as investment advisors and they are not making any specific recommendations concerning stocks or any other form of investment. Goldline and its Account Executives are not agents for Client, have different financial interests and

incentives from Client and owe no fiduciary duty to Client. Account Executives are generally commissioned salespeople whose commissions are greatest on numismatic and semi-numismatic items and least on bullion related products. They may receive cash and other undisclosed compensation from Goldline for recommending specific coin or currency products. Client will check with a licensed professional with expertise in a particular market before making a decision to buy or sell.

Goldline clients have their purchases of \$1,000 or more confirmed by a client service representative who reviews the products being purchased, the unit price and the total price. The client service representative also reiterates that the purchase is subject to Goldline's Account and Storage Agreement.

Every client receives a written confirmation which identifies the products purchased, unit price, and total cost of the transaction. The written confirmation also reiterates Goldline's risk disclosure information. Every order is then checked at least twice before shipping to ensure accuracy.

Goldline provides all first-time clients who purchase semi-numismatic or numismatic coins with an unconditional seven day cancellation period (or longer depending on applicable state law) that provides a full refund. This allows clients additional time to compare prices, conduct additional due diligence and consult with others about their purchase.

Goldline's Answers to the Subcommittee's Questions²

1. Does Goldline International instruct or encourage its sales staff to promote sales of coins instead of bullion or offer them incentives to promote the sales of coins over bullion? If so, is this practice taught or encouraged by management in staff trainings or in sales meetings?

Account Executives are trained not to disparage any product that Goldline sells or refuse to show, display, offer for sale, or sell a product. Goldline's marketing and advertising is directed towards semi-numismatic and numismatic coins although Goldline sells millions of dollars worth of bullion products every year. Goldline encourages its sales staff to sell those products it features; however, the ultimate choice of products is the client's.

Goldline's commission structure is explained in *Coin Facts for Investors and Collectors to Consider* which we discuss above. This booklet is provided to every Goldline client and the client must confirm to Goldline that he or she has read this booklet.

Coin Facts provides:

ACCOUNT EXECUTIVES: The Account Executives at Goldline are generally commissioned salespersons. Their commissions are usually greatest on rare coins and

² We have followed the letter's numbering which omits question number 4.

semi-numismatic coins and least on bullion related products. Their work experience, knowledge, background, and training vary widely. They and/or Goldline may receive, from time to time, undisclosed compensation for recommending specific coin or currency products (including but not limited to contests, cooperative advertising, and trading profits in coins that they may own and/or sell).

2. Do Goldline International sales staff receive a different commission rate percentage when selling bullion than they do when they sell collectible coins? If so, what is the difference in the commission rate between bullion sales and collectable coin sales?

Goldline's sales staff is commissioned. As noted above and disclosed to every Goldline client, the commissions are usually greatest on rare coins and semi-numismatic coins and least on bullion related products. While commissions may vary, generally the commission paid for numismatic and semi-numismatic items is 5.5% and the commissions for bullion products may range from 0.25%-to 2.5%. Account Executives may receive other compensation such as bonuses in addition to their commission.

3. What is the average spread between your sales prices on gold bullion, your purchase price for that same item and the melt value? What is the average spread between your sales prices on gold coins, your purchase price for that same item and the melt value?

A typical spread on our most common bullion coins may range from approximately 5% to 20% depending on the coin though spreads may increase based upon market conditions, availability and demand. Goldline's spread on semi-numismatic coins, rare or numismatic coins and rare currency currently ranges from 30% to 35%.

Goldline sells literally hundreds of different types of coins. Thus, it is not practical to provide the melt value for each coin. More importantly, a review of melt value for any coin that carries a premium above its metal content could be misleading. For example, a coin with one ounce of gold may sell for tens of thousands of dollars due to such factors as scarcity, condition, grade and demand. Looking solely at a rare coin's melt value is akin to valuing rare art based solely upon the cost of the canvas and paint.

The purchase price for coins also varies considerably based upon a number of factors including current precious metals prices, availability, demand, quantity, source, and shipping costs. Based upon these different factors, prices for a coin often vary from day to day. Given these differences and the fact that Goldline sells thousands of coins, it is not practical to identify an average purchase price for these coins.

5. Do Goldline International sales staff reference government confiscation of gold as a rationale for purchasing coins rather than bullion? If so, is this practice taught or encouraged by management in staff trainings or in sales meetings?

The Account Executives are instructed to discuss potential government confiscation of coins and bullion only in the context of the 1933 Executive Order confiscating gold and enforcement of the ban on private gold ownership as applied by the Department of Treasury, Office of Domestic Gold and Silver Operations through 1974. Goldline also provides the full text of the 1933 Executive Order on its website at www.goldline.com. No promise or guarantee regarding confiscation can be made on any Goldline product.

6. Does Goldline International offer investment advice to customers or potential customers? Is Goldline's sales staff qualified or licensed by any jurisdiction to offer investment advice?

Goldline is not licensed as an investment advisor and its sales staff is instructed not to recommend the purchase or sale of any product or investment other than the products specifically sold by Goldline. Some sales staff members may be licensed to offer investment advice; however, Goldline prohibits the offering of such advice.

Goldline again wishes to thank the Subcommittee for the opportunity to provide this information.

Sincerely,
GOLDLINE INTERNATIONAL, INC.



Mark Albarian
President & CEO